

CMP: INR 688

Rating: BUY

Target Price: INR 837

Stock Info

BSE	532144
NSE	WELCORP
Bloomberg	WLCO:IN
Sector	Iron & Steel Products
Face Value (INR)	2
Mkt Cap (INR Bn)	62.05
52w H/L (INR)	1067/610
Avg Yearly Vol (in 000')	224

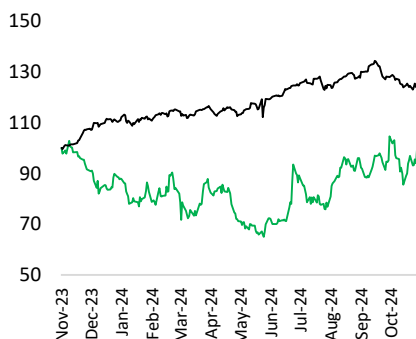
Shareholding Pattern %

(As on Sept, 2024)

Promoters	50.01%
Public & Others	49.99%

Stock Performance (%)	1m	6m	12m
WLCO	-4.5	+11.7	+27.3
Nifty 50	-5	+4.4	+19.4

WELCORP Vs Nifty 50



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Overview: Numbers largely in-line with estimates, strong commentary and guidance.

Operating Metrics (Consol)

- Revenues** came in at INR 33 Bn (+5.25% QoQ) (-18.7% YoY) (-2.1% our estimates)
- EBITDA** came in at INR 3.996 Bn (+6.86% QoQ) (+0% YoY) (+11% our estimates)
- EBITDA Margins** came in at 12.1% (Vs 11.92% QoQ) (Vs 9.84% YoY)
- PAT** came in at INR 2.87 Bn (+19.17% QoQ) (-0.54% YoY) (+13% Vs our estimates)
- PAT Margins** came in at 8.53% (Vs 7.81% QoQ) (Vs 7.15% YoY)

Key Triggers:

Planned expansion: Company has laid out huge expansion plans – taking total India DI pipe capacity to 600,000 tonnes, greenfield capex of DI Pipes (250,000 tonnes) and LSAW facility in KSA, HFIW capex in USA and INR 23.55 Bn capex in Sintex. The entire capex is to be executed till FY28, majority to be completed in FY26 and FY27. Capex to result in significant volumes globally and will make Welspun Corp the largest pipe player globally.

Capital Allocation Key: Company sold off 5% of investment in EPC (bringing down their shareholding to 26%). The funds will be used for planned capex in KSA. Going ahead, we expect non-core businesses to be sold off as well which will aide capex funding.

Outlook: Management has maintained their guidance of INR 170 Bn in topline and INR 17 Bn in EBITDA (incl. OI). In the past month itself company received 2 orders in USA which will suffice capacities for CY25. Moreover, company is anticipating receiving more orders in USA. EPIC facilities are booked for 2.5 years. DI Pipe unit of Middle East (WOS) to start in 15-18 months, Company to transport the LSAW facilities which were in Dahej (shut unit) to KSA under WOS. Besides execution, the key factor to keep an eye on will be the debt levels. **We revise our target price to INR 837 and maintain our BUY rating.**

Valuation Summary

Rs mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Net Sales	65,051	97,581	1,73,396	1,39,754	1,96,838	2,46,636
EBIDTA	4,717	4,846	15,614	14,937	19,740	25,292
Net Profit	4,552	1,992	11,360	9,537	11,315	14,608
EPS, Rs	17.45	7.61	43.42	36.45	43.24	55.83
PER, x	12.21	90.35	15.85	18.88	15.91	12.32
EV/EBIDTA, x	11.42	39.48	11.78	12.18	9.53	7.44
P/BV, x	1.26	3.80	3.21	2.90	2.52	2.15
ROE, %	10.28	4.21	20.23	15.34	15.85	17.41

Welspun Corp Q2FY25 Management Meet Highlights

Capex 2.0 to propel company to new heights. Execution being the most important factor

Key Highlights of the Meeting:

Line Pipes India:

- In pole position for some projects in overseas markets (exports). LSAW exports seeing improved demand
- CGD Pipelines in 25-30% of awarded GAs to be installed in next 2-3 years
- States like Gujarat, MP, Rajasthan, Tamil Nadu and Karnataka are increasing the water pipeline network for irrigation, industrialization and urbanization purposes

USA:

- Strong potential in USA as they are increasing LNG exporting capacity from 13 BCF/day by another 10 BCF.
- Strong opportunities for hydrogen and carbon capture projects.
- Company recently won 2 large orders which will suffice the operations till CY25 end. Company in pole position for a few more orders. Expecting 4-5 more natural gas pipeline projects to come in the future from permian basin
- Company is expanding by adding more HFIW capacities (ERW) due to anticipated demand growth
- No downtime/maintenance shutdown for USA facilities after completion of current order

KSA:

- Orderbook can suffice capacities till 2.5 years. Company may explore to add some more capacities in EPIC.
- Company is adding LSAW and DI pipe capacities through wholly owned subsidiary in KSA (Dammam)
- Extremely strong demand from main clients. Existing players in KSA are not able to meet the supplies and quality. Lot of DI Pipe demand met through imports.
- Setting up LSAW and DI facility in Dammam will also allow company to export to USA (benefit of duties). KSA is large market for LSAW
- Welspun Corp sold 5% stake in EPIC which raised INR ~5 Bn which will be used to fund the KSA capex.

DI Pipe India:

- Company is conducting capex to install 200,000 tonnes of DRI which will lead to higher VAP and reduction in costs.
- Govt initiatives like Jal Jeevan Mission will be followed by Amrut scheme, waste water treatment and sewage treatment. Anticipating good demand from the above mentioned initiatives.

WSSL:

- Company raising INR 3.5 Mn through equity for debottlenecking, upgrading facilities, wc management and repaying some debt.
- Pipes demand strong, Bars demand to pick up from Q4

Sintex:

- Massive capex planned to penetrate in the Piping segment. Major entry into OPVC segment along with UPVC and CPVC.
- Company has exclusive contract with Rollepaaal for machines and tech. To be commissioned by Q4FY25. Bhopal plant to be launched by June 2025
- ~4-5 greenfield plants will be installed pan India to serve the entire market. Weetek acquisition making strong inroads for company to position itself in Piping market
- Water tank business to grow organically to regain some of the lost market share

TMT Bars:

- Increasing capacities in TMT (epoxy TMT) to serve further demand

Nauyaan Shipyard:

- No capex plans at the moment, likely to be sold going in the future. Money raised will be used for planned capex

Capex Update:

- USA - HFIW capacities being added (350,000 tonnes at INR 8.4 Bn) to come onstream by March 2026
- KSA (wholly owned subsidiary) - DI capacities of 250,000 tonnes and LSW capacities of 350,000 tonnes at investment of INR 16.6 bn to come onstream by April 2026
- Spiral line in Bhopal - of 60,000 tonnes at INR 520 Mn to come onstream by June 2025
- DI pipe 200,000 tonnes at INR 3 Bn to come onstream by April 2025
- Sintex - 200,000 tonnes at investment of INR 23.55 Bn to come online in phases between FY26 and FY28 (OPVC, CPVC, UPVC)
- TMT capex to add 255,000 tonnes at INR 3.01 Bn capex to come online by April 2026

Other Highlights

- Line pipe volumes stood at 206,000 tonnes
- DI Pipes volumes stood at 65,000 tonnes
- SS Bars and SS Pipes volumes stood at 3,900 and 1,300 tonnes respectively
- TMT Bars volumes stood at 41,000 tonnes
- Order book stood at 704,000 tonnes (INR 95 Bn) for Line Pipes, 356,000 tonnes (INR 29.14 Bn) for DI Pipes, 5,800 tonnes (INR 2.6 Bn) for SS Bars and SS Pipes
- H1 capex at INR 3.7 Bn

Outlook:

Company has laid out strong plans for future growth, especially in different regions. Capital allocation to be key here (company made an important call to cash out some of the investment from EPIC to reinvest in KSA through WOS). Further, we expect the non core businesses to be exited as well and the cash generated will be used for planned capex. LSAW facilities of Dahej to be transported to KSA. Company targeting stronger traction from KSA and USA going ahead (hence expanding facilities tactically). The key factor to monitor is the execution of the projects and capex (company has a proven track record). **We remain positive on the company and maintain our BUY rating with target of INR 837.**

Exhibit: Income Statement (Consol)

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	99,568	71,526	65,051	97,581	1,73,396	1,39,754	1,96,838	2,46,636
Net Raw Materials	65,348	47,595	47,580	72,540	1,20,995	98,583	1,43,425	1,61,603
Employee Cost	6,365	4,545	3,835	5,411	9,376	8,294	10,211	12,695
Other Expenses	16,255	11,436	8,919	14,785	27,410	17,941	23,462	47,045
EBITDA	11,600	7,951	4,717	4,846	15,614	14,937	19,740	25,292
EBITDA (%)	11.65	11.12	7.25	4.97	9.00	10.69	10.03	10.25
Depreciation	2,333	2,465	2,548	3,030	3,479	4,827	6,327	8,214
Interest expense	1,440	850	1,019	2,432	3,044	1,134	1,561	1,771
Other income	1,159	3,568	5,512	3,200	2,425	2,446	2,165	2,225
Associate & JV				752	2,618	1,128	1,273	1,273
Profit before tax	8,985	10,930	6,663	3,336	14,135	12,549	15,291	18,804
Taxes	4,124	2,553	2,164	1,345	2,775	3,012	3,976	4,196
Net profit	4,861	8,377	4,499	1,992	11,360	9,537	11,315	14,608
Reported Netprofit Margin (%)	4.83%	11.15%	6.38%	1.98%	6.46%	6.71%	5.69%	5.87%
EPS (INR)	26.53	32.01	17.45	7.61	43.42	36.45	43.24	55.83

Source: Company Reports, Arihant Capital Research

Exhibit: Balance Sheet (Consol)

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Cash & bank	9,631	14,100	21,947	21,783	15,208	13,229	12,116	14,006
Marketable securities at cost	0	0	0	0	0	0	0	0
Debtors	12,470	6,688	8,126	11,405	17,991	22,973	26,964	33,786
Inventory	22,682	12,130	10,195	56,862	23,156	38,289	40,446	47,300
Loans & advances	936	8,682	1,184	6,454	4,512	6,516	8,635	4,496
Other current assets	11,642	1,121	1,711	0	0	0	0	0
Total current assets	57,361	42,721	43,162	96,504	60,866	81,007	88,162	99,587
Investments	4,213	7,267	9,581	8,972	9,575	9,975	9,975	9,975
Gross fixed assets	28,347	43,873	44,899	71,083	75,883	83,883	1,08,883	1,33,883
Less: Depreciation	-13,040	-19,535	-22,002	-24,824	-28,303	-33,130	-39,457	-47,284
Add: Capital WIP	817	1,472	12,604	869	851	851	851	851
Net fixed assets	16,124	25,811	35,500	47,128	48,431	51,603	70,276	87,449
Non-current assets	1,734	1,119	3,446	653	2,013	2,080	2,180	2,290
Total assets	79,432	76,917	91,689	1,53,257	1,20,884	1,44,665	1,70,592	1,99,301
Current liabilities	34,347	16,586	23,166	75,105	32,924	56,882	68,034	81,664
Provisions	3,446	9,497	6,677	6,825	6,646	6,783	6,924	7,067
Total current liabilities	37,792	26,083	29,843	81,929	39,570	63,665	74,957	88,731
Non-current liabilities	9,346	8,739	16,571	23,023	21,240	17,530	22,814	25,090
Total liabilities	47,138	34,822	46,413	1,04,952	60,809	81,195	97,771	1,13,822
Paid-up capital	1,304	1,304	1,305	1,308	1,308	1,308	1,308	1,308
Reserves & surplus	30,848	39,523	42,978	46,013	54,855	60,861	70,083	82,598
Shareholders' equity	32,294	42,095	45,275	48,441	57,345	63,470	72,821	83,906
Total equity & liabilities	79,432	76,917	91,689	1,53,393	1,18,154	1,44,665	1,70,592	1,97,728

Source: Company Reports, Arihant Capital Research

Exhibit: Cash Flow (Consol)

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Pre-tax profit	8,985	10,930	6,663	3,336	14,135	12,549	15,291	18,804
Depreciation	2,333	2,465	2,548	3,030	3,479	4,827	6,327	8,214
Chg in working capital	2,396	5,470	7,574	-5,746	-14,462	1,884	2,903	4,109
Total tax paid	-2,854	-1,407	-1,463	-280	-1,715	-2,737	-3,690	-3,900
Other operating activities	-	-	-	-	-	-	-	-
Cash flow from operating activities	10,860	17,458	15,321	-1,722	1,437	16,524	20,830	27,228
Capital expenditure	-2,364	-12,151	-12,237	-14,657	-4,782	-8,000	-25,000	-25,387
Chg in investments	-2,893	-3,055	-2,313	-	-	-	-	-
Chg in marketable securities	-	-	-	-	-	-	-	-
Other investing activities	-	-	-	-	-	-	-	-
Cash flow from investing activities	-5,258	-13,857	-14,550	-13,297	-2,766	-7,272	-23,727	-24,114
Free cash flow	5,603	3,601	771	-15,019	-1,329	9,252	-2,897	3,113
Equity raised/(repaid)	-608	2,872	23	-	-	-	-	-
Debt raised/(repaid)	-5,670	792	8,395	4,968	-3,038	-3,961	5,020	2,000
Dividend (incl. tax)	-3,205	-1,526	-1,527	-1,504	-1,308	-2,093	-2,093	-2,093
Other financing activities	-	-	-	-	-	-	-	-
Cash flow from financing activities	-7,231	4,613	6,669	3,595	-4,285	-5,936	3,057	-1,523
Net chg in cash	-1,628	8,215	7,440	-11,424	-5,614	3,316	160	1,590
Opening cash balance	10,192	9,631	14,100	21,947	21,783	15,208	13,229	12,116
Closing cash balance	9,631	14,100	21,947	21,783	15,208	13,229	12,116	14,006

Source: Company Reports, Arianth Capital Research

Exhibit: Ratios (Consol)

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Per Share data								
EPS (INR)	26.53	32.01	17.45	7.61	43.42	36.45	43.24	55.83
Growth, %	1,075.64	20.64	-45.49	-56.35	470.13	-16.04	18.64	29.11
Book NAV/share (INR)	123.24	156.50	169.70	180.93	214.64	237.60	272.84	320.67
FDEPS (INR)	26.53	32.01	17.45	7.61	43.42	36.45	43.24	55.83
CEPS (INR)	35.47	36.18	27.21	19.20	56.71	54.90	67.42	87.22
CFPS (INR)	22.36	49.99	38.11	-24.05	33.63	49.75	66.85	91.11
DPS (INR)	10.50	5.00	5.00	5.00	5.00	8.00	8.00	8.00
Return ratios								
Return on assets (%)	7.80	11.80	6.54	3.60	10.50	8.04	8.17	8.85
Return on equity (%)	21.53	20.45	10.28	4.21	20.23	15.34	15.85	17.41
Return on capital employed (%)	14.80	18.91	9.36	6.57	19.14	13.34	14.55	15.98
Turnover ratios								
Asset turnover (x)	3.12	1.96	1.65	2.01	2.88	2.24	2.77	2.89
Sales/Total assets (x)	1.23	0.91	0.77	0.80	1.27	1.05	1.25	1.33
Sales/Net FA (x)	6.18	3.41	2.12	2.36	3.63	2.79	3.23	3.13
Working capital/Sales (x)	0.11	0.10	-0.12	-0.07	0.04	0.03	0.01	-0.01
Receivable days	45.71	34.13	45.59	42.66	37.87	60.00	50.00	50.00
Inventory days	83.15	61.90	57.20	212.69	48.74	100.00	75.00	70.00
Payable days	59.84	41.16	59.53	101.32	51.03	78.38	83.36	89.14
Working Capital day	74.22	107.48	79.13	55.55	45.14	45.70	24.79	16.32
Working capital days (Ex-cash)	38.92	35.53	-44.01	-25.93	13.13	11.15	2.32	-4.41
Liquidity ratios								
Current ratio (x)	1.55	1.97	1.49	1.18	1.54	1.28	1.18	1.12
Quick ratio (x)	0.93	1.41	1.13	0.49	0.96	0.67	0.64	0.59
Interest cover (x)	6.43	6.46	2.13	0.75	3.99	8.92	8.59	9.64
Dividend cover (x)								
Total debt/Equity (%)	30.95	23.58	45.65	70.08	33.97	24.32	28.21	26.38
Net debt/Equity (%)	1.00	-10.95	-3.91	24.05	6.89	3.04	11.24	9.69
Valuation								
PER (x)	5.54	4.48	12.21	90.35	15.85	18.88	15.91	12.32
PEG (x) - y-o-y growth	0.02	1.04	-0.87	-1.60	0.03	-1.18	0.85	0.42
Price/Book (x)	1.19	1.07	1.26	3.80	3.21	2.90	2.52	2.15
Yield (%)	7.14	2.99	2.35	0.73	0.73	1.16	1.16	1.16
EV/Net sales (x)	0.39	0.55	0.83	1.96	1.06	1.30	0.96	0.76
EV/EBITDA (x)	3.33	4.92	11.42	39.48	11.78	12.18	9.53	7.44
EV/EBIT (x)	4.17	7.13	24.82	105.36	15.15	17.99	14.02	11.02

Source: Company Reports, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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